

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2006-5-G – ORDER NO. 2006-679
NOVEMBER 13, 2006

IN RE: South Carolina Electric & Gas Company –)	ORDER RULING ON PGA
Annual Review of Purchased Gas)	AND GAS PURCHASING
Adjustments and Gas Purchasing Policies.)	PRACTICES
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)	

By Commission Order No. 87-898, dated August 14, 1987, the Public Service Commission of South Carolina (“Commission”) instituted an annual review of the Purchased Gas Adjustments (“PGA”) and Gas Purchasing Policies of South Carolina Electric & Gas Company (“SCE&G” or the “Company”). In this PGA proceeding, the review period is November 1, 2005 through October 31, 2006 (the “Review Period”). The forecast period is November 1, 2006 through October 31, 2007 (the “Forecast Period”).

By letter dated June 1, 2006, the Commission’s Docketing Department instructed SCE&G to publish a prepared Notice of Hearing in newspapers of general circulation in the areas affected by the PGA review. The Docketing Department also instructed the Company to provide direct notification of the PGA review to each affected customer. SCE&G filed affidavits with the Commission attesting to its compliance with the Docketing Department’s instructions.

The South Carolina Office of Regulatory Staff (“ORS”) appeared as a party of record in this matter pursuant to S.C. Code Ann. § 58-4-10 (Supp. 2005). As the gas utility under review, SCE&G was made a party directly in the notice and appeared by counsel in the proceeding. The Notice of Hearing established August 3, 2006, as the date by which interested persons or entities could timely file petitions to intervene with the Commission. The South Carolina Energy Users Committee (“SCEUC”) filed a Petition to Intervene, which the Commission granted. No other petitions to intervene were filed with the Commission.¹

By letters dated June 1, 2006, August 15, 2006, and September 25, 2006, the Commission’s Docketing Department issued scheduling directives to all Parties establishing the dates for the Parties to pre-file testimony and exhibits in this case.

On September 21, 2006, SCE&G pre-filed the direct testimony of witnesses Martin K. Phalen, Rose Jackson, R. Dow Bailey, Harry L. Scruggs, and Kenneth R. Jackson. On October 6, 2006, ORS pre-filed the direct testimony of witnesses Paul B. Townes and Carey M. Flynt. SCEUC, the only other party of record, did not pre-file the testimony of any witnesses.

On October 12, 2006, the Parties filed a comprehensive Settlement Agreement wherein they stipulated to a resolution of all issues in the proceeding.

The Commission conducted a formal hearing in this matter on October 19, 2006, beginning at 10:30 a.m. in the office of the Commission, with the Honorable G. O’Neal Hamilton, presiding. Patricia Banks Morrison, Esquire, Belton T. Zeigler, Esquire, and

¹ SCE&G, ORS, and SCEUC are hereafter referred to collectively as the “Parties.”

Mitchell Willoughby, Esquire, represented the Company. Shannon Bowyer Hudson, Esquire, and Jeffrey M. Nelson, Esquire, represented ORS. Scott Elliott, Esquire, represented SCEUC.

At the outset of the hearing, counsel for ORS provided an overview of the Settlement Agreement and moved its acceptance into the evidence of record. The Commission accepted into the record the Settlement Agreement, including Exhibits A, B, C, and D attached thereto, and designated the agreement as Hearing Exhibit No. 1.

In support of its PGA and Gas Purchasing Policies and the Settlement Agreement, SCE&G presented direct testimony from Martin K. Phalen, Rose Jackson, R. Dow Bailey, Harry L. Scruggs, and Kenneth R. Jackson at the hearing. Mr. Phalen's exhibit was accepted into the record as Hearing Exhibit No. 2. Ms. Jackson's exhibits were accepted into the record as Hearing Exhibit No. 3. Mr. Bailey's exhibits were accepted into the record as Hearing Exhibit No. 4, and Mr. Scrugg's exhibits were accepted into the record as Hearing Exhibit No. 5.

At the hearing, ORS presented direct testimony from Paul B. Townes and Carey M. Flynt and their exhibits were accepted into the record as Hearing Exhibits Nos. 6 and 7, respectively. SCEUC did not present any witnesses at the hearing. Consistent with the terms of the Settlement Agreement, all of the witnesses who pre-filed direct testimony in this proceeding and orally presented such testimony before the Commission were subject to questioning by the Commissioners, and not by any party.

Around this time last year, the natural gas markets were at historically high levels due to the unfortunate effects of Hurricanes Katrina and Rita which in turn caused

SCE&G's natural gas customers to experience a significant increase in their gas prices. Fortunately, gas prices have retreated since the Company's last PGA review, leading to a reduction in the commodity cost of gas factor. However, the impact of this decrease in the commodity cost of gas was lessened due to warm weather last winter which resulted in an under collection of fixed demand costs during the Review Period, and by an increase in rates charged by upstream pipelines. Notwithstanding these somewhat offsetting events, SCE&G proposed in its pre-filed direct testimony that the Commission approve a reduction in the total cost of gas factors for all classes of customers.

As we have observed in the past, the natural gas market continues to be very volatile, and, even after SCE&G pre-filed its direct testimony, the commodity cost of gas continued to fall. As the Parties sought ways to lower the total cost of gas further, ORS requested that the commodity cost of gas factors be updated to reflect the then lower prices. Further, to lessen the impact of rising demand costs, ORS recommended that the Company apply to these costs approximately \$2 million of additional credits projected to be received from interruptible sales. ORS also requested, with the consent of SCEUC, that SCE&G allocate its demand charges among the rate schedules based upon a 50-50 allocation of peak design day demand and annual forecast sales. As a result, agreements were reached between all parties which provide for further reductions in the total cost of gas factors for residential and small commercial customers without jeopardizing the Company's financial stability and integrity.

The Commission commends SCE&G, ORS, and SCEUC for negotiating a Settlement Agreement which strikes a balance between lowering the total cost of gas

factors for SCE&G's natural gas customers while simultaneously protecting the financial integrity of the Company. In summary, based upon the evidence of record, the Settlement Agreement represents a commendable compromise between the Parties which the Commission fully supports.

After carefully considering the representations of counsel and the evidence of record, including the Settlement Agreement and the testimony and other exhibits presented in this docket, the Commission concludes as a matter of law that: (i) approval of the Settlement Agreement is in the public interest; (ii) SCE&G properly administered the purchased gas adjustment and employed prudent and reasonable gas purchasing practices and policies during the Review Period; (iii) the Company recovered its gas costs consistent with all applicable tariffs and Commission orders; (iv) SCE&G administered the Industrial Sales Program – Rider in a prudent and reasonable manner; (v) the Company properly credited the benefits resulting from the retirement of its two propane air facilities to the cost of gas; (vi) SCE&G (a) reasonably developed its future costs of purchased gas supplies, (b) developed and prepared its peak design day using standard forecasting methods commonly accepted in the natural gas industry, and (c) is prepared to meet its customers' needs via future supply and capacity asset plan; (vii) the total cost of gas factors per therm to be adopted beginning with the first billing cycle in November 2006 should be \$1.11460 for Residential, \$1.00434 for Small/Medium General Services, and \$0.96252 for Large General Services; (viii) after notification to the Commission, ORS, and SCEUC as set forth in the Settlement Agreement, SCE&G should be allowed to adjust its cost of gas factors on a monthly basis for material differences of \$0.01 per

therm or more in any cost of gas factor beginning with the first billing cycle of each month; (ix) the Company's projected commodity and demand costs should be updated monthly based on a 12-month rolling average of forecasted costs using then currently available data; (x) carrying costs (a) should be computed using the rate of interest as of the first day of each month for 10-year U.S. Government Treasury Bills plus an all-in spread of 65 basis points, (b) should not exceed 6%, and (c) should not be applied to over or under-collection balances equal to or exceeding \$20 million; (xi) SCE&G should recover uncollectible gas costs through the commodity cost of gas rather than through cost of service in base rates beginning with the first billing cycle in November 2007; (xii) the Company should be allowed to (a) implement and operate a financial hedging program using the Kase ezHedge Model in conjunction with dollar cost averaging as primary tools in its hedging program, (b) recover through the commodity cost of gas prudently incurred costs associated with the hedging program, (c) hedge up to but not exceeding 50% of estimated gas purchases for firm customers, and (d) report as set forth in the Settlement Agreement to the Commission, ORS, and SCEUC within thirty (30) days following the close of each month, the results of the hedging program; (xiii) SCE&G should no longer be required to file a natural gas supply diversity report; (xiv) SCE&G should be allowed to modify its General Terms and Conditions as contained in the Company's tariff and/or service agreements to (a) permit curtailment of gas service to customers within a geographical area or areas by customer curtailment category, (b) assess a penalty against customers who violate a curtailment order with penalty amounts collected to be credited to the cost of gas, and (c) make permanent those authorizations

allowing the Company, in its discretion, to permit interruptible customers to buy emergency gas (supply related) during curtailment periods when gas supplies and transportation are available; and (xv) the 2006 Memorandum of Understanding entered into between SCE&G's gas and electric departments should be approved.

NOW THEREFORE, based upon the foregoing, IT IS HEREBY DECLARED AND ORDERED THAT:

1. The Settlement Agreement, including Exhibits A, B, C and D to the Settlement Agreement, attached hereto as Order Exhibit No. 1 is incorporated into and made part of this Order by this reference. Further, the Settlement Agreement is found to be in the public interest and constitutes a reasonable resolution of the issues in this proceeding and therefore is hereby adopted and approved.
2. SCE&G's gas purchasing policies and practices during the Review Period were reasonable and prudent.
3. The Company administered the Industrial Sales Program – Rider in a reasonable and prudent manner;
4. The Company properly administered the purchased gas adjustment and recovered its gas costs consistent with all applicable tariffs and Commission orders.
5. Beginning with the first billing cycle of November 2006, SCE&G's gas cost recovery factor shall be \$1.11460 per therm for Residential, \$1.00434 per therm for Small/Medium General Service, and \$0.96252 per therm for Large General Service.
6. Beginning December 2006, the Company is hereby authorized to adjust its cost of gas factors on a monthly basis according to the procedure and methodology set-

out in Paragraph 4 of the Settlement Agreement. SCE&G is also authorized to modify the PGA methodology contained in its tariff to reflect the methodology set forth in Paragraph 4 of the Settlement Agreement.

7. SCE&G's obligation under Commission Order No. 2002-747 to file with the Commission "quarterly updates related to [SCE&G's] review of the benefits of diversifying the Company's natural gas supply" is hereby terminated.

8. The 2006 Memorandum of Understanding entered into between SCE&G's gas and electric departments and designated as Hearing Exhibit No. 2 is hereby approved.

9. Upon the effective date of the merger between South Carolina Pipeline Corporation and SCG Pipeline, Inc., SCE&G is hereby authorized to implement and operate a financial hedging program in accordance with Paragraph 12 of the Settlement Agreement.

10. SCE&G is hereby authorized to modify its General Terms and Conditions as contained in the Company's tariff and/or service agreements in accordance with Paragraph 9 of the Settlement Agreement.

11. The Company is hereby authorized to recover its uncollectible gas costs through the commodity cost of gas beginning with the first billing cycle in November 2007 and timed to coincide with any rate adjustment approved as a result of SCE&G's 2007 Rate Stabilization Act filing.

12. Future SCE&G PGA hearings will be scheduled to occur in late June beginning in calendar year 2007.


13. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



G. O'Neal Hamilton, Chairman

ATTEST:



C. Robert Moseley, Vice Chairman

(SEAL)

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2006-5-G
October 12, 2006

IN RE:

Annual Review of Purchased
Gas Adjustment and Gas Purchasing
Policies of South Carolina Electric and
Gas Company

SETTLEMENT AGREEMENT

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This Settlement Agreement ("Settlement Agreement") is made by and among the South Carolina Office of Regulatory Staff ("ORS"), South Carolina Energy Users Committee ("SCEUC"), and South Carolina Electric & Gas Company ("SCE&G" or "the Company") (collectively referred to as the "Parties" or sometimes individually as "Party");

WHEREAS, on June 1, 2006, the Public Service Commission of South Carolina (the "Commission") issued a notice of hearing for the 2006 Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies of SCE&G;

WHEREAS, the purpose of this proceeding is to review matters related to SCE&G's gas purchasing practices and policies, SCE&G's purchased gas adjustment ("PGA") factors, and the forecasts of SCE&G's future costs of purchased gas;

WHEREAS, the period under review in this docket is November 1, 2005 to October 31, 2006 ("Review Period");

WHEREAS, this period under review is unique in that during the Review Period, SCG Pipeline, Inc. ("SCG") and South Carolina Pipeline Corporation ("SCPC") filed an application requesting that the Federal Energy Regulatory Commission ("FERC") grant the authorizations

necessary to permit the merger of SCG into SCPC to form a single, integrated interstate pipeline ("the merger") operated under FERC jurisdiction and to be called Carolina Gas Transmission Corporation ("CGTC");

WHEREAS on July 20, 2006, the FERC issued an order approving the merger;

WHEREAS, the merger is expected to be consummated November 1, 2006;

WHEREAS, ORS has examined the books and records of SCE&G and conducted inquiries and analyses related to the Company's gas purchasing practices and policies, purchased gas adjustment factor, and the forecasts of SCE&G's future costs of purchased gas;

WHEREAS, ORS determined that during the period under review, SCE&G: a) properly administered the purchased gas adjustment and employed prudent gas purchasing practices and policies inasmuch as the Company purchased all gas supplies from SCPC under Commission approved tariffs and procedures; b) administered the Industrial Sales Program-Rider ("ISP-R") prudently and reasonably and in accordance with the terms of Order No. 2005-619, adopting the Settlement Agreement entered into in Docket No. 2005-113-G, which authorized that program in its current form; c) recovered its gas costs consistent with all applicable tariffs and Commission orders; and d) properly credited to the cost of gas the benefits resulting from the retirement of its two propane air facilities as set forth and allowed in Docket No. 2005-5-G and Order No. 2005-653. For the forecast period, ORS determined that SCE&G: a) reasonably forecasted its future costs of purchased gas supplies; b) developed and prepared its peak design day using standard forecasting methods commonly accepted in the natural gas industry; and c) is prepared to meet its customers' needs via its future supply and capacity asset plans;

WHEREFORE, the Parties have engaged in discussions and in the spirit of compromise, the Parties hereby stipulate and agree to the following terms and conditions:

1) The Parties agree to stipulate into the record before the Commission this Settlement Agreement with Exhibits A, B, C, and D attached hereto. The Parties further agree to

stipulate into the record the pre-filed direct testimony of Martin K. Phalen, Rose Jackson, R. Dow Bailey, Harry L. Scruggs, Kenneth R. Jackson, Carey S. Flynt and Paul B. Townes without cross-examination and that each witness will take the stand to present his or her testimony.

2) For the purpose of setting the gas cost recovery factors in this proceeding, the Parties accept the use of ORS's cost of gas forecast for the period November 1, 2006 through October 31, 2007 as set forth on Exhibit A, attached hereto.

3) The Parties agree that the following total cost of gas factors per therm to be adopted beginning with the first billing cycle in November 2006 and set forth in Exhibit B are:

i) Residential	\$1.11460
ii) Small/Medium General Services	\$1.00434
iii) Large General Services	\$0.96252

Further, the Parties acknowledge the demand charges included within the above-stated total cost of gas factors was calculated by distributing such costs among the rate schedules based upon a 50-50 allocation of peak design day demand and annual forecast sales. SCE&G agrees to use the 50-50 allocation of peak design day demand and annual forecast sales in any recalculation of total cost of gas factors under this Settlement Agreement.

4) The Parties agree that beginning in December 2006, SCE&G shall be allowed to adjust its cost of gas factors on a monthly basis, according to the following procedure:

- a) Adjustments to the total cost of gas factors may be made each month effective for bills rendered beginning with the first billing cycle of the next month.
- b) Before the first billing cycle of the next month, SCE&G will recalculate its forecast total cost of gas factors for the month using the following methodology:
 - i) The projected commodity and demand costs as set forth in Exhibits A and B will be updated monthly based on a 12-month forward rolling average of forecasted costs using then currently available data. The commodity cost

of gas will be updated based on the NYMEX index as of the date that calculation is made. The demand cost of gas will be updated to reflect upstream pipeline costs, current assessments of anticipated industrial margins, capacity release credits and firm sales levels. The calculations will be made during the month prior to the first billing cycle of the month in which the newly adjusted cost of gas factors would be applied. The month during which the calculation is made is referred to below as the "Current Month."

- ii) In recalculating the cost of gas factors, the cumulative over- or under-collection balance is included to produce a zero balance at the end of a forward 12-month period. The cumulative over or under collection balance shall be the balance as of the close of the month prior to the Current Month, adjusted for the over or under collection that is forecasted to occur during the Current Month.
- iii) If there is a Material Difference between the newly recalculated gas cost factors and the gas cost factors previously approved and in force for the Current Month, then SCE&G will notify the Commission, ORS and SCEUC of its intent to adjust gas cost factors as set forth below. For purposes of this Settlement Agreement, a "Material Difference" is defined to be a variance requiring an adjustment in any cost of gas factor (demand or commodity benchmark) or for any customer class that is equal to or greater than \$0.01 per therm. Where an adjustment is required in any cost of gas factor, all cost of gas factors will be adjusted at that time.
- c) If there is a Material Difference, SCE&G will notify the Commission, ORS and SCEUC of the newly computed cost of gas factors by letter before the first billing

cycle of the next month. SCE&G agrees to include with the letter updated Exhibits A and B supporting the new gas cost factors along with the updated firm rate sheets from the tariff.

- d) If there is no Material Difference, SCE&G will notify the Commission, ORS and SCEUC of such and the existing cost of gas factors will remain in effect for the next billing cycle. SCE&G further agrees to provide to ORS and SCEUC updated Exhibits A and B showing the difference is not material.

5) As part of this Settlement Agreement, the Parties agree that SCE&G shall charge and recover carrying costs on the cumulative total over- or under-collection balances. Carrying costs, if any, will be credited to customers in the event of an over-collection balance or credited to the Company in the event of an under-collection balance. The applicable interest rate used to calculate the interest payments which SCE&G is authorized to collect on under-collection balances or required to pay on over-collection balances will be the rate of interest as of the first day of each month for 10-year U.S. Government Treasury Bills plus an all-in spread of 65 basis points (0.65 percentage points). The maximum total carrying costs rate, which includes the 65 basis points, shall not exceed 6%. No carrying costs shall be applied to over- or under-collection balances equal to or exceeding \$20 million dollars.

6) The Parties stipulate and agree that SCE&G shall be allowed to modify its PGA methodology contained in its tariff to reflect the methodology set forth in paragraph 4 above and attached hereto as Exhibit C.

7) The Parties stipulate and agree that the 2006 Memorandum of Understanding ("2006 MOU") as set forth in Martin K. Phalen's pre-filed direct testimony is reasonable and shall be allowed in that it allows the Company to share interstate transportation capacity between its Gas and Electricity Departments and allocates capacity costs based on the relative number of

customers served resulting in the same allocation of costs as the 2005 Memorandum of Understanding set forth and approved in Docket No. 2005-5-G and Order No. 2005-653.

8) The Parties stipulate and agree that the natural gas supply diversity report ("report") established in Docket No. 2002-5-G and Order No. 2002-747 shall no longer be required since the merger will result in SCE&G purchasing its natural gas supply from several sources.

9) The Parties stipulate and agree that SCE&G shall be allowed to modify its General Terms and Conditions as contained in the Company's tariff and/or Service Agreements as set forth in the pre-filed direct testimony of Rose Jackson including specifically the provisions of her Exhibit RJ-6 (attached hereto as Exhibit D) to: a) permit curtailment of gas service to customers within a geographical area or areas by customer curtailment category; b) assess a penalty against those customers who violate a curtailment order with the penalty amounts collected to be credited to the cost of gas; and c) make permanent the authorizations allowing the Company, in its discretion, to permit interruptible customers to buy emergency gas (supply related) during curtailment periods when gas supplies and transportation are available.

10) Beginning with the first billing cycle in November 2007 to coincide with any rate adjustment related to the 2007 RSA filing, the Parties agree that SCE&G shall recover its uncollectible gas costs through the commodity cost of gas as opposed to recovering it as a cost of service.

11) Due to the cessation of future SCPC PGA hearings as a result of the merger, the Parties stipulate and agree that beginning in 2007 it would be appropriate to schedule the 2007 SCE&G PGA hearing during the time period the SCPC hearing was previously held. Accordingly, the Parties respectfully request that beginning in 2007 the Commission schedule all future SCE&G PGA hearings in late June. The Parties understand the 2007 SCE&G PGA will result in a shortened review period.

12) The Parties recognize that there are hedges in place either made by SCPC for the benefit of SCE&G under the provisions of Commission Order No. 2006-331 or made directly by SCE&G for its own account under the provisions of Order No. 2006-537 ("Interim Hedging Programs"). The Parties agree that the hedging program to be implemented under the terms of this Settlement Agreement shall be implemented to insure that total hedges for any future period do not exceed 50% of estimated gas purchases for SCE&G's firm customers, taking into account hedges placed pursuant to the provisions of Order Nos. 2006-331 and 2006-537. Order Nos. 2006-331 and 2006-537 provide for SCE&G to recover its financial gains, losses and costs associated with these Interim Hedging Programs.

The Parties further agree that beginning November 1, 2006, SCE&G shall implement and operate a financial hedging program (1) using the Kase ezHedge Model in conjunction with dollar cost averaging as the tools of its hedging program and (2) recovering through the commodity cost of gas prudently incurred costs associated with the hedging program including brokerage fees, costs of software directly related to managing the hedging program, direct management program costs, costs of financial instruments purchased, carrying costs on outstanding margins, and any additions to or subtractions from the cost of gas. The applicable interest rate used to calculate carrying costs on outstanding margins will be the rate of interest as of the first date of each month for 10-year U.S. Government Treasury Bills plus an all-in spread of 65 basis points (0.65 percentage points). The maximum total carrying cost rate on outstanding margins, which includes the 65 basis points, shall not exceed 6%. The Company may hedge up to but not exceed 50% of estimated gas purchases for its firm customers. SCE&G agrees to report to the Commission, ORS and SCEUC within 30 days following the close of each month the results of the hedging program for the preceding month, which report shall include the hedging transactions closed-out during the month, the additions to or subtractions from the cost

of gas resulting from closed-out contracts, the costs of operating the program during the month, and a list of open transactions as of the last day of the month for each succeeding month.

The Parties agree that SCE&G's hedging program shall be operated independent of and shall be accounted for separate from its purchase of physical gas supply.

13) ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B) (added by Act 175). S.C. Code § 58-4-10(B)(1) through (3) reads in part as follows:

... 'public interest' means a balancing of the following:

- (1) concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) economic development and job attraction and retention in South Carolina; and
- (3) preservation of the financial integrity of the State's public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.

ORS believes this Settlement Agreement reached among the Parties serves the public interest as defined above.

14) The Parties agree to advocate that the Commission accept and approve this Settlement Agreement in its entirety as a fair, reasonable and full resolution of all issues in the above-captioned proceeding and to take no action inconsistent with its adoption by the Commission. The Parties further agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

15) The Parties agree that signing this Settlement Agreement will not constrain, inhibit, impair, or prejudice their arguments or positions held in other collateral proceedings, nor will it constitute a precedent or evidence of acceptable practice in future proceedings. If the

Commission declines to approve the Settlement Agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty or obligation.

16) This Settlement Agreement shall be interpreted according to South Carolina law.

17) The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by affixing its signature or by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any Party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement. The Parties agree that in the event any Party should fail to indicate its consent to this Settlement Agreement and the terms contained herein, then this Settlement Agreement shall be null and void and will not be binding on any Party.

Docket No. 2006-5-G

Order No. 2006-679

November 13, 2006

WE AGREE:

Representing the South Carolina Office of Regulatory Staff

Shannon Bowyer Hudson

Shannon Bowyer Hudson, Esquire

Jeffrey M. Nelson, Esquire

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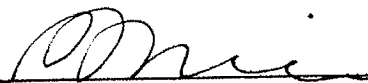
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WE AGREE:

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Docket No. 2006-5-G

Order No. 2006-679

November 13, 2006

WE AGREE:

Representing South Carolina Energy Users Committee



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Docket No. 2006-5-G
Order No. 2006-679
November 13, 2006

Exhibit A

SOUTH CAROLINA ELECTRIC AND GAS COMPANY
PROJECTED COMMODITY AND DEMAND COSTS
(OVER)/UNDER COLLECTION

	COMMODITY COST PER THERM (COL. 1)	BILLING COMMODITY COST PER THERM (COL. 2)	DIFFERENCE (COL. 3)	FIRM SALES THERMS (COL. 4)	(OVER)/UNDER COLLECTION (COL. 8)
BEGINNING BALANCE --					
Nov-06	\$1.08816	\$0.81391	\$0.27426	15,268,000	\$2,372,024
Dec-06	\$1.16670	\$0.81391	\$0.35279	29,624,000	\$6,872,141
Jan-07	\$0.91196	\$0.81391	\$0.09805	42,456,000	\$13,656,359
Feb-07	\$0.75894	\$0.81391	(\$0.05496)	39,520,000	\$10,518,270
Mar-07	\$0.73556	\$0.81391	(\$0.07834)	28,451,000	\$1,908,837
Apr-07	\$0.61365	\$0.81391	(\$0.20025)	18,029,000	(\$3,733,904)
May-07	\$0.66429	\$0.81391	(\$0.14962)	10,992,000	(\$7,985,354)
Jun-07	\$0.67861	\$0.81391	(\$0.13530)	8,503,000	(\$8,338,339)
Jul-07	\$0.68616	\$0.81391	(\$0.12775)	7,494,000	(\$7,500,719)
Aug-07	\$0.66252	\$0.81391	(\$0.15139)	7,575,000	(\$6,166,814)
Sep-07	\$0.67041	\$0.81391	(\$0.14349)	7,587,000	(\$5,035,576)
Oct-07	\$1.00632	\$0.81391	\$0.19242	8,975,000	(\$3,816,273)
Total				224,472,000	\$0
					(\$2,372,024)

Exhibit B

**South Carolina Electric and Gas Company
Development of DCOG, CCOG and Total Cost of Gas Factors**

	Residential	SGS / MGS	LGS
PROPOSED			
DCOG Factor	\$0.30070	\$0.19043	\$0.14862
CCOG Factor	\$0.81391	\$0.81391	\$0.81391
Total Cost of Gas Factor	\$1.11460	\$1.00434	\$0.96252

SOUTH CAROLINA ELECTRIC AND GAS COMPANY PURCHASED GAS ADJUSTMENT FIRM GAS ONLY

This adjustment is applicable to and is part of the Company's firm gas rate schedules. The cost will be calculated to the nearest one-thousandths of a cent, as determined by the following formula, and will be included in the base rates to the extent approved by the Public Service Commission. All costs and factors will be recalculated monthly for a forward looking 12-month period. Adjustments in gas cost factors will be made for all factors in any month in which the recalculation indicates that any factor requires an adjustment of \$0.01 per therm or more. The recalculation shall be made based on information current as of a mid-month date selected by the Company which allows for revised factors to be filed and acted on by the Commission before the first billing cycle of the month in which they are to be effective. All components of the recalculation (commodity costs, demand charges, firm sales, industrial revenue credits, capacity release credits, over or under collections, carrying costs, etc.) shall reflect current forecasts and balances as of the date of the recalculation. Differences between firm cost of gas revenues billed and firm cost of gas expenses recovered for each month, as detailed below, will be calculated monthly, for both Demand Charges and Firm Commodity Benchmark charges, and accumulated. The accumulated amounts will be applied to subsequent cost of gas factor calculations as detailed herein with monthly carrying costs calculated at the rate of one-twelfth of the annual applicable interest rate. This annual rate is defined as the rate of interest as of the first day of each month for 10-year U.S. Government Treasury Bills plus an all-in spread of 65 basis points (0.65 percentage points) with this total carrying costs annual rate not exceed 6%. The rate will be applied to the cumulative balance of over or under recovery as of the close of the prior month for each customer class for both demand and commodity with no carrying cost applied to over or under-collection balances equal to or exceeding \$20 million dollars. The resulting interest adjustment will be applied to the demand and commodity cost of gas recovery balances for each customer class. The Demand Charges and Firm Commodity Benchmark charges shall be calculated as set forth below.

A. Demand Charges:

$$\text{Demand Charges per Therm by Class} = \frac{[a-(b+c)] \times \text{Rate Class Percentages}^*}{\text{Firm Sales Therms \& Transp. Volumes by Rate Class}}$$

- (a) Capacity charges and reservation fees for transportation, storage and LNG.
- (b) Released capacity at 75% of the net compensation received from secondary market transactions. (See "Note-1" below)
- (c) Margin Revenue from interruptible rates above \$.02081 per therm. Margin Revenue is the total amount received for such sale less the commodity cost of gas determined in B below.

* The initial rate class percentages are (Residential Rate 32 -64.30%, General Rates 31, 33 & 36 -29.06% and Large General Rates 34 & 35 - 6.64%).

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All calculations of Demand Charges by customer class shall be done monthly. The full amount of any Margin Revenue as stated in C above, shall be credited to the Demand Cost. Additionally, SCE&G will revise the rate class percentages to reflect the current weighting of 50% of annual peak day forecast and 50% of forecast annual sales in each annual Purchased Gas Adjustment filing.

NOTE-1: "Released Capacity" shall include all transactions which involve the use of gas transportation capacity rights, storage rights or similar off-system rights or assets owned by SCE&G, but only if the cost of those rights or assets is borne by firm gas customers in South Carolina. "Net value received" shall mean the gross compensation received from the "released capacity" transactions, less all transportation charges, taxes or other governmental charges, brokerage fees or commissions, or other costs or charges related to the transaction, including all costs incurred in purchasing natural gas supplies that form part of the transaction.

B. Firm Commodity Benchmark:

Where: Firm Gas Cost per Therm = $\frac{(p-d)}{s}$

- (p) Total variable cost of natural gas (processed or unprocessed), vaporized liquid natural gas, synthetic gas, propane-air mixture, landfill gas, or other source of methane gas or any mixture of these gases entering the Company's system in dollars including any additions or subtractions from Price Risk Adjustment.
- (d) The cost of gas attributable to all sales made by the Company to customers under an interruptible rate or contract or any Special Market Priced Customers, such costs to be calculated by dividing the total price paid for commodity gas for the month by the volumes of gas purchased for the month (adjusted for shrinkage) with the resulting unit price then multiplied by interruptible sales therms for the month. (See "Note-2" Below)
- (s) Total firm therm sales of gas. Total sales being defined as those sales excluding gas sold under D above recorded on the Company's books in Accounts 480 through 483 per The Uniform System of Accounts for Class A and B Gas Utilities of the National Association of Regulatory Utility Commissioners (NARUC).

NOTE-2: Special Market Priced Gas includes, without limitation, market priced gas sold to Compressed Natural Gas (CNG) customers under SCE&G's Developmental Rate for CNG and emergency gas customers sold under provisions providing for Emergency Gas sales. The appropriate revenue related tax factor is to be included in the calculation of Demand Charges and the Firm Commodity Benchmark.

C. Alternative Commodity Benchmark Calculation Related to Interruptible Sales

Interruptible sales are priced to reflect the cost of gas supplies available at the time the sales are transacted. The Firm Commodity Benchmark is calculated as a system-wide average at month's end. In some cases, the market price of gas supplies may change within a month such that the Firm Commodity Benchmark plus \$.02081 per therm is higher than the price quoted for interruptible sales. In such cases, SCE&G may calculate an Alternative Commodity Benchmark for those interruptible sales whose prices fall below the Firm Commodity Benchmark. SCE&G shall then use that Alternative Commodity Benchmark plus \$.02081 per therm in calculating the Margin Revenue from those sales.

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The Alternative Commodity Benchmark --The Alternative Commodity Benchmark shall be calculated using the following formula:

$$\text{Cost of Gas per Therm} = \frac{p}{d}$$

- (p) Total variable cost of gas (of whatever type) entering the Company's system that was purchased, nominated, injected or otherwise obtained to support the interruptible sales whose prices are lower than the Firm Commodity Benchmark.
- (d) The interruptible sales, in therms, whose prices are lower than the Firm Commodity Benchmark.

The costs and quantities of gas used in such calculation shall be excluded from the calculation of the Firm Commodity Benchmark under Section B, above.

Margin Revenue from Interruptible Sales: In those months in which SCE&G elects to compute an Alternative Commodity Benchmark for interruptible sales, it shall use that Alternative Commodity Benchmark to compute Margin Revenue from interruptible sales and shall include the Margin Revenue so calculated in factor (c) of the Demand Cost calculation under Section A, above.

Whenever SCE&G elects to compute an Alternative Commodity Benchmark for interruptible sales, it shall provide written notice thereof to the Commission and the Office of Regulatory Staff, within 30 days of adopting the resulting adjustment to prices and volumes.

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SOUTH CAROLINA ELECTRIC AND GAS COMPANY

CURTAILMENT OF SERVICE PROVISIONS

A. Notwithstanding the terms of any service contract or agreement, general terms and conditions, tariff provisions, or rate provisions to the contrary, the Company may, during periods of curtailment, limit curtailment within any given geographic area or areas to those Customers within the area or areas where the need for the curtailment exists. Geographic areas will be defined by the Carolina Gas Transmission Corporation ("CGTC") approved tariff and determined based upon any applicable Operational Flow Order issued by CGTC. While the Company may limit the curtailment to a specific geographic area or areas or may vary the extent of the curtailment among such areas as the needs of the system require, the Company shall nevertheless preserve and enforce the applicable priorities of service categories within each geographic area. This provision (Section A) applies to both firm and interruptible customers.

B. Notwithstanding the terms of any service contract or agreement, general terms and conditions, tariff provisions, or rate provisions to the contrary, if the Company issues a curtailment order and Customer does not comply with the order, the Company will assess, and Customer will be obligated to pay, a penalty to the Company as follows:

- (i) For violation of a curtailment order the Customer shall pay to the Company \$20.00 per dekatherm, plus the highest Daily Gas Index Price¹ for the

¹ "Daily Gas Index Price" means the arithmetic average of:

- (i) Natural Gas Intelligence Daily Gas Price Index, *Louisiana, Southern Natural*; and
- (ii) Natural Gas Intelligence Daily Gas Price index, *Louisiana, Transco St. 65*.

day of, the gas day preceding, or the gas day following receipt or delivery, all other applicable upstream pipeline charges, and the Customer's base rate mark-up;

(ii) In addition to the penalties set forth above in paragraph (B)(i), the Customer shall pay to the Company an amount equal to their pro-rata share of any penalty incurred by the Company for violation of an upstream pipeline's Operational Flow Order ("OFO"), if the Customer's violation of SCE&G's curtailment order results in incremental costs above the penalty assessed in paragraph (B)(i) above.

(iii) Penalties will be assessed on each dekatherm of gas received into or taken out of the Company's system when such deliveries or receipts are not in compliance with a curtailment order.

(iv) The payment of a penalty under this provision shall under no circumstances be considered as giving Customer any right to violate any curtailment order issued. Further, the receipt of payment by the Company from any customer violating any provision of these Curtailment of Service Provisions shall not be considered as a substitute for or in lieu of any other remedy available to the Company for Customer's failure to comply with the curtailment order.

(v) This provision (Section B) applies only to interruptible customers.

If no index for a gas day is published, the price will be computed as the average of the applicable indices on the closest index publication date preceding and the closest index publication date following such gas day.

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SOUTH CAROLINA ELECTRIC AND GAS COMPANY**SALES OF APPROVED EMERGENCY GAS (SUPPLY RELATED)**

The Company may, in its discretion, offer any interruptible customer subject to curtailment the ability to buy Emergency Gas (Supply Related) during the curtailment on an interruptible basis when gas supplies and transportation are available. Any gas purchases made under this provision shall be priced at the actual delivered price of the specific source of supply allocated by the Company to serve the Customer, plus the approved maximum contract margin for service, plus all other costs and charges related to the specific gas supply used to serve the Customer.

Sales volumes and supply costs related to the gas supplied pursuant to this provision shall not be considered in computing the Company's weighted average cost of gas or in administering any aspects of the Company's Purchased Gas Adjustment ("PGA"), PGA process, or orders related thereto.

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